

the inception of operations as indicated by the Table of Average Interest Rates on Special Issues of Public-Debt Obligations Issued to the Federal Hospital Insurance Trust Fund as published by the Office of Actuary of the Federal Health Care Financing Administration.

2. The amortization rate is equal to the ratio of annual debt service (principal and interest) to original principal required to amortize a loan in 25 equal installments, with an interest rate equal to the appropriate above defined "interest rate".

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- (g) For the first 25 years of the life of a NF beginning with the year of construction, the amortization rate will be applied to the reasonable appraised value of the building and fixed equipment.
- (h) Beyond the 25th year after construction, the interest rate will be applied to the reasonable appraised value of buildings and fixed equipment.
- (i) For NFs built in multiple stages, a weighted average year of original construction will be established by weighting licensed beds by the age of the component multiple stages of the building in which the beds are located. Where inequities could result from this calculation, homes with suitable records may request that the weighted average year of construction be calculated based upon plant square feet constructed.
- (j) For NFs with residential and/or sheltered care patients, data

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relative to common areas will be apportioned to nursing patients based upon base period licensed beds. After making such apportionments, appraised values will be subject to the reasonableness screens described in (c), (d) and (e) above and, where applicable, to the weighted average year of construction calculations described in (i) above. This proration will not be redetermined for subsequent years in the absence of significant changes in facilities or in patient mix.

- (k) For NFs which were converted to NF use from other uses, the year of conversion will be used provided the conversion costs exceeded the acquisition cost of the building and building equipment. Otherwise, the original year of construction will be used.
- (l) For existing NFs the State will not increase the CFA rate in future years should the Table of Average Interest Rates on Special Issues of Public-Debt Obligations, issued to the federal Hospital Insurance Trust Fund published by the Office of the Actuary of the federal Health Care Financing Administration increase.

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(m) The Medicaid program will review, on an individual basis, situations where the strict application of the provisions of this section would be inappropriate under particular circumstances, such as:

1. Situations where an existing debt must be refinanced in connection with obtaining funds to expand existing NFs;
2. The inability of NFs to obtain 25-year financing.

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3.12 Land

(a) The CFA for land will be based upon appraised value of land and land improvements determined by an agent designated by the State as follows:

1. For NFs beginning operation before January 1, 1978, the 1977 value of land and land improvements;
2. For NFs beginning operation on or after January 1, 1978, the value of land and land improvements as of the completion of construction;
3. For additions to existing NFs beginning operation on or after January 1, 1978, the value of additional land acquired or additional land improvements made as of the completion of construction of the addition. Land or land improvements previously included in a facility's appraisal will not be reappraised in determining value of an addition to a facility;
4. For replacement facilities beginning operation on or after January 1, 1978, the value of additional land acquired or additional land improvements made as of the completion of construction. Land or land improvement included in the original facilities appraisal will not be reappraised in determining value of a replacement facility.—

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5. Land and land improvement value will be subject to reasonable limits with respect to:
 - i. Reasonable land area;
 - ii. The total reasonable appraised value of reasonable land area.
 6. Reasonableness limits for land and land improvements will be the same as defined for property taxes on land in 3.7. For NF's beginning operation on or after January 1, 1978, the original reasonableness limit for reasonable appraised value will be increased by a factor for inflation, which factor will be the same as described in 3.11(d)2. For acquisitions of land related to addition(s) to building or building replacements, a single weighted reasonableness limit for the entire NF land evaluation will be calculated based upon acreage and the appraisal land limit factors of a) land as originally appraised and b) appraised addition(s) to land.
- (b) The applicable interest rate developed per section 3.11(f) will be applied to the reasonable appraised land value.
- (c) The provisions of section 3.11(l) through (m) will also apply to CFA for land.

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- (d) For NFs providing residential or sheltered care, reasonable appraised values for land will be prorated to nursing care patients based upon their proportion of base period total beds. This proportion will not be redetermined in the absence of significant changes in patient mix.

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3.13 Movable equipment

(a) The moveable equipment allowance will be based upon the median requirements per bed at 1977 price levels. This median will be determined by:

1. Selecting new NFs built since 1969 which had over 20 percent Medicaid days in the base period.
2. Incrementing their original expenditures for moveable equipment to 1977 price levels by applying an appropriate index of inflation in equipment costs.
3. Converting these inflated expenditures to cost per bed and ranking Statewide.

(b) The allowance per licensed bed will be determined by applying to this median cost the interest rate developed per section 3.11(f).

(c) Inasmuch as this allowance will be based upon the current replacement cost of new equipment, it will be deemed to provide for unusually large expenditures for maintaining old equipment (the departments consider it to be purely a management prerogative as to when to

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replace, rather than repair, old equipment). A provision for ongoing routine equipment maintenance and replacements will be included in the maintenance and replacements allowance as described in section 3.14.

3.14 Maintenance and replacements

(a) An allowance for the maintenance of land, land improvements, building and equipment and for replacement of equipment will be developed for Class I and Class II facilities and each type of Class III facility as follows:

1. Expenditures for this purpose in the base period for Class I, Class II and each type of Class III of NF which had over 20 percent Medicaid days in the base period will be adjusted to price levels at the midpoint of the base period through the application of the inflation factor to reported costs for fiscal years ending prior to December. Class III NFs will not be excluded due to percentage of Medicaid days.
2. Homes which were substantially expanded or remodernized during this period will be excluded from calculations described in paragraph (a)3 below.
3. For the remaining NFs, maintenance and replacement costs per

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plant square foot at base price levels will be calculated for each class of NF. Mathematical techniques will be used to determine a general formula describing the relationships between expenditures per plant square foot for maintenance and replacements and factors such as age of buildings, estimated building replacement costs, and so forth.

4. The 15 percent highest and 15 percent lowest extremes in actual expenditures compared with this general formula will then be removed from further calculations, except for Class III NFs. The same mathematical techniques will then be applied to the remaining 70 percent of the data to develop the formula to be used to calculate a reasonable allowance for each class of NF for maintenance and replacement.

5. Seventy percent of the costs of leasing equipment will be recognized as "maintenance and replacement" costs.

6. Each NF's maximum total allowance per reasonable plant square foot for any one year will be developed by applying this formula to its particular factors and incrementing the result by 10 percent. No allowance will be provided for plant square feet considered unreasonable per section 3.7(a)1, 2, 3 and 4.

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